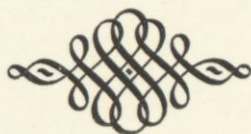


CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

CITY STORES COMPANY

and

SUBSIDIARY COMPANIES

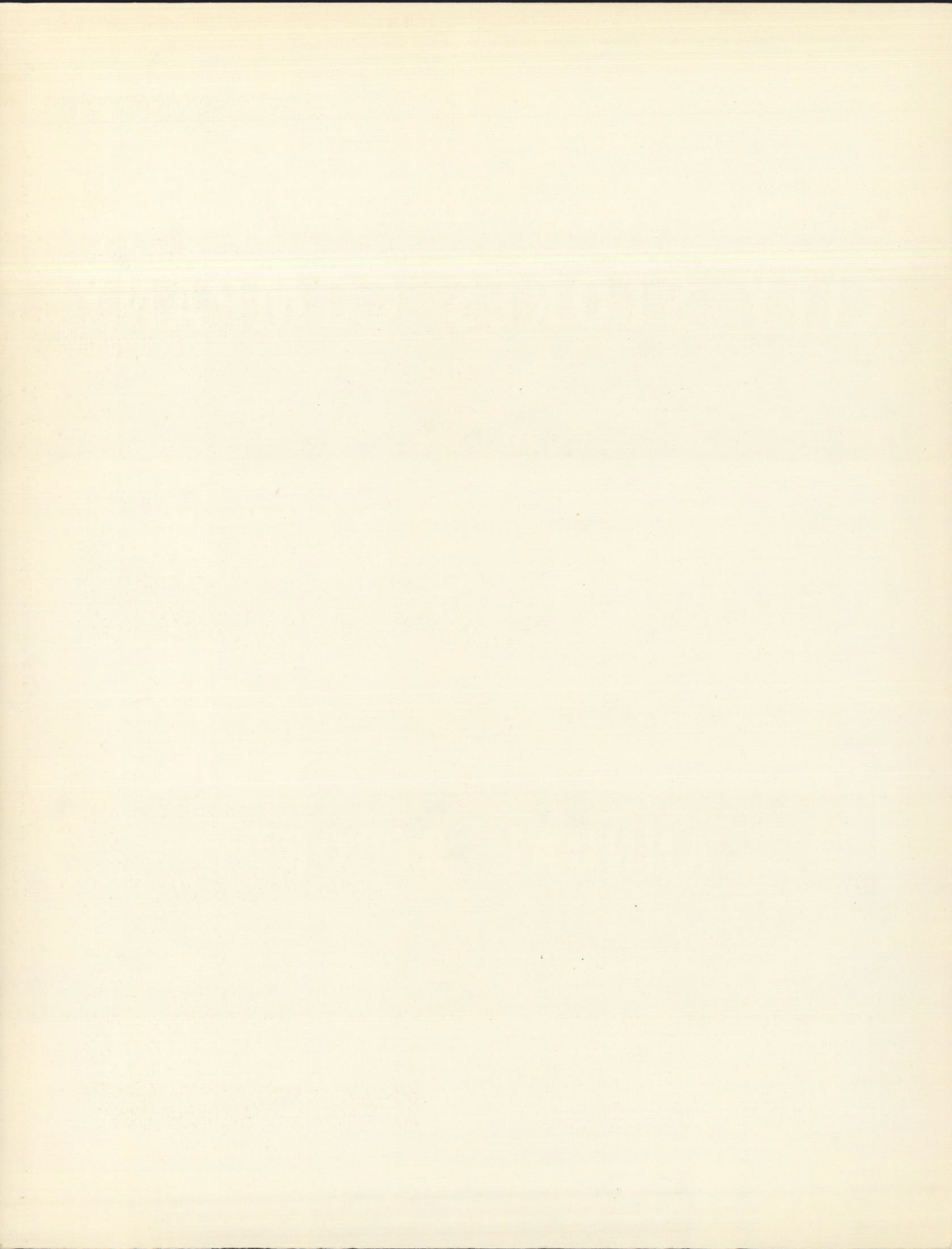


ANNUAL REPORT

JANUARY 31, 1950

BOARDS
q 658.27
C498r

WILMINGTON, DELAWARE



LIT BROTHERS



PHILADELPHIA, PA.



69th STREET, UPPER DARBY, PA.



LIT BROTHERS WAREHOUSE, PHILA.

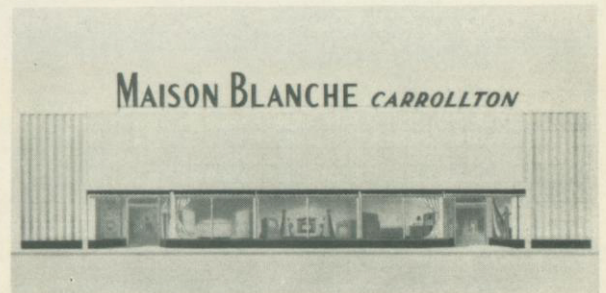


SWERN & COMPANY, TRENTON, N. J.

MAISON BLANCHE COMPANY



NEW ORLEANS, LOUISIANA



CARROLLTON, NEW ORLEANS

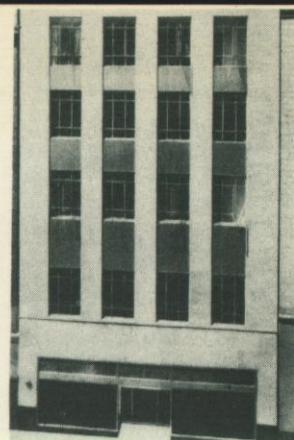


GENTILLY, NEW ORLEANS



LOVEMAN, JOSEPH & LOEB

BIRMINGHAM, ALA.



ANNEX



MEMPHIS, TENN.

B. LOWENSTEIN & BROS., INC.



LOWENSTEIN'S "EAST," MEMPHIS



LOWENSTEIN'S HOME SERVICE, INC.
MEMPHIS

R. H. WHITE CORPORATION



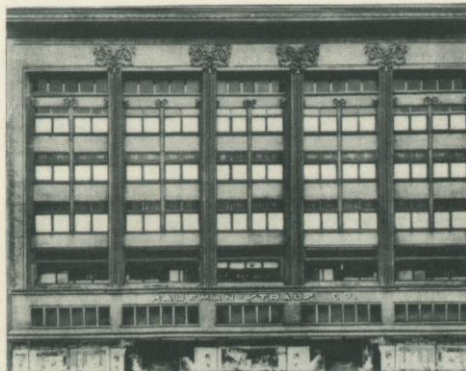
BOSTON, MASS.



WAREHOUSE
CAMBRIDGE, MASS.



RICHARD STORE COMPANY
MIAMI, FLA.



KAUFMAN-STRAUS COMPANY, INC.
LOUISVILLE, KY.



WISE, SMITH & COMPANY, INC.
HARTFORD, CONN.

OPPENHEIM, COLLINS & CO., INC.



PHILADELPHIA, PA.



GERMANTOWN, PHILA.,



NEW YORK, 34th STREET



MORRISTOWN, N. J.



EAST ORANGE, N. J.



HACKENSACK, N. J.



BROOKLYN, N. Y.



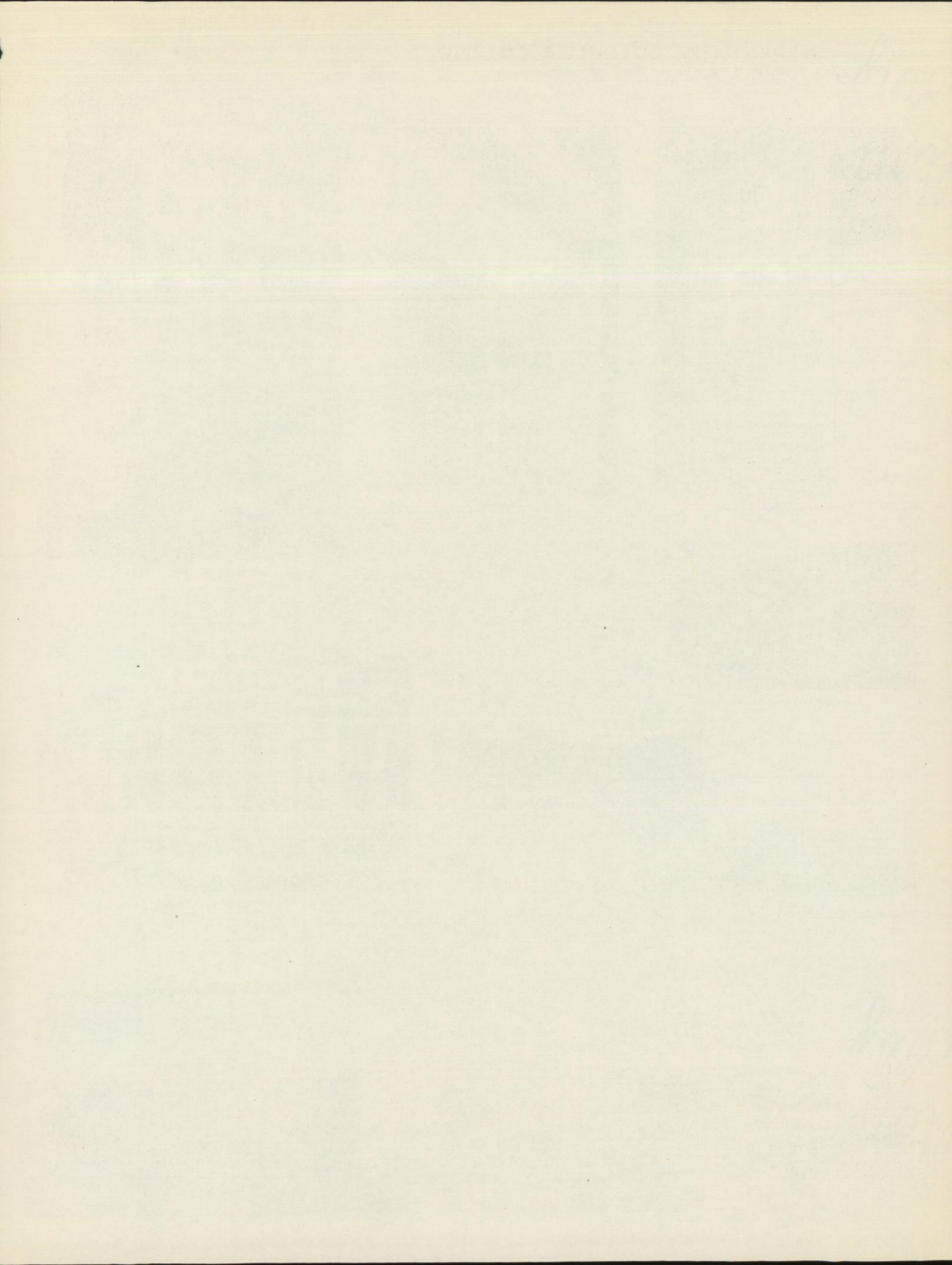
GARDEN CITY, L. I.



BUFFALO, N. Y.



WHITE PLAINS, N. Y.



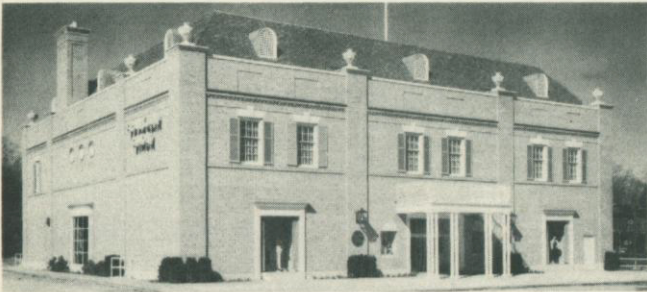
FRANKLIN SIMON & CO. INC.



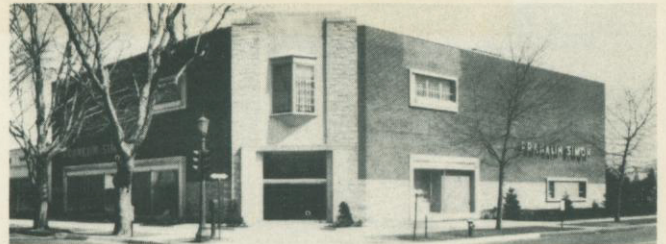
FIFTH AVENUE, N. Y.



WASHINGTON, D. C.



NEWTON, MASS.



GARDEN CITY, L. I.



ATLANTA, GA.



SHAKER HEIGHTS, CLEVELAND, OHIO



EAST ORANGE, N. J.



BRIDGEPORT, CONN.



GREENWICH, CONN.

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YEAR ENDED JANUARY 31, 1950

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CITY STORES COMPANY
207 WEST NINTH STREET
WILMINGTON 43, DELAWARE

LIT BROTHERS

Philadelphia, Pennsylvania
Established 1891

Branch

Lit 69th Street
Upper Darby, Pennsylvania 1949

SWERN & COMPANY

Trenton, New Jersey
Established 1885

MAISON BLANCHE COMPANY

New Orleans, Louisiana
Established 1887

Branches

Carrollton, New Orleans, La. 1942
Gentilly, New Orleans, La. 1947

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama
Established 1887

Loveman, Joseph & Loeb Annex

Birmingham, Alabama 1948

OPPENHEIM, COLLINS & CO., INC.

New York, N. Y.	1901
Philadelphia, Pa.	1903
Buffalo, N. Y.	1905
Brooklyn, N. Y.	1906
Garden City, L. I.	1938
White Plains, N. Y.	1941
East Orange, N. J.	1946
Morristown, N. J.	1947
Germantown, Phila.	1948
Hackensack, N. J.	1950

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee
Established 1855

Branches

Lowenstein's Home Service, Inc.
Memphis, Tennessee 1944

Lowenstein's "East"

Memphis, Tennessee 1948

KAUFMAN-STRAUS COMPANY, INC.

Louisville, Kentucky
Established 1879

R. H. WHITE CORPORATION

Boston, Massachusetts
Established 1858

RICHARD STORE COMPANY

Miami, Florida
Established 1896

WISE, SMITH & COMPANY, Incorporated

Hartford, Connecticut
Established 1889

FRANKLIN SIMON & CO. INC.

New York, N. Y.	1902
Greenwich, Conn.	1932
East Orange, N. J.	1940
Cleveland, Ohio	1941
Bridgeport, Conn.	1942
Garden City, L. I.	1946
Washington, D. C.	1948
Atlanta, Ga.	1948
Newton, Mass.	1950

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD *Chairman of the Board*
SAUL COHN *Vice Chairman of the Board*
HERBERT J. SCHWARTZ *President*
DR. WILLIAM D. GORDON *Executive Vice President and Treasurer*
JOHN B. KNOX *Vice President*
GORDON K. GREENFIELD *Vice President*
MILTON A. KAMSLER *Secretary*
BENJAMIN SCHNECK *Asst. Secretary and Corporate Controller*

DIRECTORS

GUSTAVE G. AMSTERDAM
Philadelphia, Pa.
C. GORDON ANDERSON
Miami, Fla.
MURRY C. BECKER
New York, N. Y.
ALFRED BLASBAND
Philadelphia, Pa.
DAVID BORTIN
Philadelphia, Pa.
HAROLD W. BRIGHTMAN
Philadelphia, Pa.
PHILIP N. COHAN
Philadelphia, Pa.
SAUL COHN
New York, N. Y.
STANLEY FOLZ
Philadelphia, Pa.
DR. WILLIAM D. GORDON
Philadelphia, Pa.

ALBERT M. GREENFIELD
Philadelphia, Pa.
GORDON K. GREENFIELD
New York, N. Y.
WALTER T. GROSSCUP
Philadelphia, Pa.
GEORGE H. JOHNSON
Philadelphia, Pa.
JOHN B. KNOX
Boston, Mass.
DANIEL O. MORTON
New York, N. Y.
MAX ROBB
Philadelphia, Pa.
HARRY W. SCHACTER
Louisville, Ky.
O. W. SCHANBACHER
Birmingham, Ala.
AARON R. SCHARFF
Memphis, Tenn.

HERBERT J. SCHWARTZ
New York, N. Y.

Auditors

ERNST & ERNST
19 Rector Street
New York, N. Y.

Counsel

SUNDHEIM, FOLZ, KAMSLER & GOODIS
1315 Walnut Street
Philadelphia, Pa.

Transfer Agent

CENTRAL HANOVER BANK & TRUST CO. THE CHASE NATIONAL BANK OF THE
70 Broadway CITY OF NEW YORK
New York, N. Y. 11 Broad Street, New York, N. Y.

Registrar

ANTHONY G. FELIX elected to the Board of Directors March 22, 1950

HIGHLIGHTS**YEAR ENDED JANUARY 31, 1950**

Total Net Sales.....	\$182,303,340
Net Earnings	4,581,293
Dividends Paid	2,025,457
Cash and Marketable Securities	8,485,944
Total Current Assets	59,446,964
Total Current Liabilities	21,917,470
Net Current Assets	37,529,494
Earned Surplus	22,616,426
Current Ratio	2.71

ANNUAL REPORT

YEAR ENDED JANUARY 31, 1950

APRIL 27, 1950

To the Stockholders:

Sales of your Company's stores for the year ending January 31, 1950, amounted to \$182,303,340 against \$168,104,985 for the same period last year. These sales include those of Franklin Simon & Co. Inc., since it joined our group, for the period from September 1st to the end of the fiscal year.

Transactions showed an increase, the total numbering 45,000,000 this year compared with 40,300,000 last year. Details of this and other developments of the year are given in subsequent sections of this annual report.

We also include the report of our independent auditors, Messrs. Ernst & Ernst.

EARNINGS AND DIVIDENDS

The net earnings for the year, after taxes, amounted to \$4,581,293 against \$5,398,406 last year.

Dividends were paid during the year at the annual rate of \$1.20 per share, which has been in effect since 1946.

Consolidated earned surplus as of January 31, 1950, was \$22,616,426, an increase of \$2,560,540 over the corresponding figure a year ago.

HIGHLIGHTS OF THE FINANCIAL STATEMENT

Net current assets, as reflected by the consolidated balance sheet, amounted to \$37,529,494 at the close of the year, compared with \$30,953,698 a year ago, an increase of \$6,575,796.

Inventories were \$20,522,558 as compared with \$17,159,790. These inventories are on the Lifo basis of valuation in the following of our stores:

Lit Brothers

B. Lowenstein & Bros., Inc.

Maison Blanche Company

Loveman, Joseph & Loeb

Kaufman-Straus Company, Inc.

The application of the Lifo principle results in a reduction of \$3,316,483 in year end inventories. Further reserves of \$501,043 for Shrinkage and Markdowns are shown.

Accounts Receivable increased from \$23,555,466 to \$30,403,114 during the year, largely as the result of substantial expansion in instalment sales. Reserves for Accounts Receivable are \$1,694,398 against \$1,441,769.

The total of other reserves for corporate purposes amounted to \$3,113,173; besides there has been appropriated out of earned surplus for general contingencies, the sum of \$887,328 as at the end of the fiscal year.

EXPANSION

Franklin Simon & Co. Inc.

On September 8, 1949, your Company acquired 175,549 shares of the 219,130 shares of outstanding common stock of Franklin Simon & Co. Inc. To finance this purchase, \$1,404,392 was borrowed from Bankers Securities Corporation on a subordinated note with interest at 4½%.

Franklin Simon & Co. Inc. is one of the oldest and best known apparel and specialty stores in the New York area and operate eight branches at:

Atlanta, Ga.

Garden City, Long Island

Bridgeport, Conn.

Greenwich, Conn.

Cleveland, Ohio

Newton, Mass.

East Orange, New Jersey

Washington, D. C.

It enjoys a national reputation in its field. This acquisition should prove of great benefit.

Lowenstein's "East"

On April 2, 1949, B. Lowenstein & Bros., Inc. opened a branch store on Highland and Poplar Avenues, Memphis, Tennessee, known as Lowenstein's "East." This store occupies about 35,000 square feet and is considered one of the most modern and up-to-date branch stores in the country. The results since its opening have been gratifying.

Loveman, Joseph & Loeb

Loveman, Joseph & Loeb constructed on a lot adjoining the main store on Second Avenue, Birmingham, a five-story building occupying approximately 33,000 square feet, completely equipped with modern elevators, air conditioned, etc. This addition was opened for business on June 23, 1949 and has given large additional space primarily devoted to the sale of Home Furnishings. Excellent progress is beginning to show in these expanded departments.

Lit 69th Street

Lit Brothers opened, on October 1, 1949, a branch store in Upper Darby, Pa., immediately outside of Philadelphia, consisting of two floors and basement occupying about 80,000 square feet. The results of this branch have already been so satisfactory that plans are now in the course of preparation for the erection of an additional floor on this building.

Oppenheim, Collins & Co., Inc. (East Orange, N. J.)

Oppenheim, Collins & Co., Inc. opened an enlarged store in East Orange, N. J., on September 7, 1949, this store also proving highly satisfactory.

Maison Blanche Company (Carrollton)

Maison Blanche Company Carrollton branch store, which was in the course of construction last year, was completed and opened in October, 1949. This store is fulfilling every expectation.

Franklin Simon & Co. Inc. (Newton, Mass.)

A new Franklin Simon branch store, located at Newton, Mass., just outside of the City of Boston, was opened on February 15, 1950. The store is most modern and up-to-date in design and function and the volume of business is already excellent.

Kaufman-Straus Company, Inc.

Important alterations and expansions have been in progress at Kaufman-Straus since last April. The Fifth and Sixth floors have been completed. New escalators up to the Fourth floor have been installed and are in operation. Two new passenger and one freight elevators have been completed. The new Mezzanine and other improvements, together with complete refixturing of the first four floors, will be completed and in service by September 1, 1950.

R. H. White Corporation

Extensive remodeling has taken place here. A new restaurant, a new beauty parlor and a new men's store have been completely installed.

City Stores Mercantile Company, Inc.

City Stores Mercantile Company, Inc. has completely remodeled its resident buying offices on the tenth floor at 132 West 31st St., New York City, adding about 10,000 square feet thereto, and giving it one of the most up-to-date buying facilities in the city.

FUTURE EXPANSION

Plans are presently being prepared for a new addition to Richard Store in Miami. This addition will be built on a lot immediately adjoining the present store, measuring 100 x 150 feet. The new store will consist of four floors, completely air conditioned, with modern escalators serving the new structure and running up to the sixth floor of the present building. The front of the entire store will be completely modernized. New show windows and new fixtures will be installed. Plans call for occupancy of the new building by the end of 1950.

Oppenheim Collins plans the construction of an addition in Hackensack, N. J., occupying 15,000 square feet, and is enlarging its branch store in Germantown, Pa., which will give this store a total area of about 18,000 square feet.

All of our properties are being kept up-to-date by constant repairs and modernization to the plants and fixtures, it being our policy to keep our facilities fully competitive and to increase their sales potentials to the maximum extent.

CHANGES IN FINANCIAL STRUCTURE

To finance our expansion program, certain changes in the financial structure of our subsidiaries were made. Kaufman-Straus issued \$500,000 of Preferred Stock which was subscribed to by your Company, in order to enable this company to complete the aforementioned reconditioning and refixturing improvements. The cost of construction of the additional floors and structural improvements were defrayed by the owners of the property at a cost in excess of \$600,000.

For the construction of the new building in Miami, Richard Store Company borrowed \$1,500,000 from The First National Bank of Boston for eighteen months. It is contemplated that this loan will be paid off by a mortgage to be placed on the building when construction is completed.

On April 1, 1949, your Company sold the warehouse at Cambridge, Mass. and R. H. White continues to occupy it on a lease arrangement with the new owners.

Lit Brothers

For the purpose of retiring the outstanding balance of \$5,987,462 of its 6% Preferred stock, Lit Brothers arranged the sale of \$6,000,000 of subordinated 20-year debentures, bearing interest at 4%. The debentures were over-subscribed. The transaction was completed April 6, 1950, and the retirement of the Preferred stock is now in process.

As a result the \$4,000,000 of Lit Preferred held by your Company was retired. Part of the proceeds were used to reduce the outstanding indebtedness of your Company to The Chase National Bank of the City of New York and The First National Bank of Boston. This debt, originally \$7,500,000, is now \$2,750,000, bears interest at 3% and provides for retirement between the years of 1951 and 1956.

EXECUTIVE CHANGES

Saul Cohn, then President of the Company, was elevated to Vice Chairman of the Board of Directors, an office created at the Stockholders' meeting on May 18, 1949. At this meeting, Herbert J. Schwartz, formerly President of Maison Blanche Company, was elected President of City Stores Company.

On April 4, 1949, Isidore Newman, II, Executive Vice President, was made President of Maison Blanche Company. On October 1, 1949, Gordon K. Greenfield, Vice President and Treasurer of Oppenheim, Collins & Co., Inc. was elected President of that company.

CONCLUSION

The department store business in 1949 faced many difficulties due to the economic changes. The sale of fashion goods during the latter part of 1949 and the beginning of 1950 decreased materially. This was, in a large measure, offset in many of our stores by increased volume of home furnishings, appliances and other household merchandise. The trend towards the expansion of hard goods lines continues. We confidently expect an improvement in the fashion goods situation in the second half of 1950.

The inventories of your Company's stores are in excellent shape and we are prepared to meet conditions as they may arise during the course of the coming year.

We take pleasure in acknowledging the cooperation and loyal services of all of our co-workers who are, in a large measure, responsible for the results achieved during the past year.

ALBERT M. GREENFIELD,
Chairman of the Board.

HERBERT J. SCHWARTZ,
President.

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS

Cash		\$ 7,778,948.05	
United States Government securities, at cost and accrued interest (approximate market)		706,995.66	
Accounts receivable:			
Customers, including \$11,098,570.18 of installment accounts	\$31,326,077.57		
Suppliers, tenants, and others	771,435.47	\$32,097,513.04	
Less allowances for doubtful		1,694,398.60	30,403,114.44
Merchandise inventories — Note A			20,522,558.88
Refundable income and excess profits taxes of prior years — estimated			35,347.11
TOTAL CURRENT ASSETS			\$59,446,964.14

INVESTMENTS AND OTHER ASSETS

Investments:

United States Government securities, at cost and accrued interest (deposited as security under a lease)	\$ 197,559.38		
Capital stock of a parent company, at cost (approximate market value \$178,750.00)	53,800.00		
Mortgages receivable and accrued interest	338,197.12		
Sundry investments, less allowances of \$32,869.93	189,421.03	\$ 778,977.53	
Employees and sundry notes and accounts receivable, deposits, etc.		212,948.63	
Cash surrender value of life insurance		40,225.63	
Refundable income and excess profits taxes of prior years — estimated		870,464.22	1,902,616.01

LAND, BUILDINGS, EQUIPMENT, AND IMPROVEMENTS — Note B

Land		\$ 7,559,461.40	
Buildings, fixtures, and equipment	\$29,686,785.36		
Less allowances for depreciation	13,114,497.27	16,572,288.09	
Improvements to leased properties	\$ 4,839,521.79		
Less allowances for amortization	1,105,304.86	3,734,216.93	27,865,966.42

GOOD WILL (intangible assets carried on books of subsidiaries total \$1,912,914.44) 2.00

DEFERRED CHARGES

Inventories of supplies	\$ 354,436.65		
Prepaid insurance, taxes, and expenses	1,358,831.13		
Unapplied portion of advances to landlords toward construction costs to be offset against future additional percentage rentals	253,598.74	1,966,866.52	

\$91,182,415.09

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

SHEET, JANUARY 31, 1950

LIABILITIES

CURRENT LIABILITIES

Notes payable to banks	\$ 3,535,000.00	
Installments due within one year:		
On promissory notes (2 $\frac{1}{4}$ %) \$300,000.00 and on mortgages \$240,506.68 — Note E (1) ..	540,506.68	
Accounts payable for merchandise, etc.	10,858,902.32	
Accrued salaries, wages, taxes, interest, etc.	2,204,287.25	
Dividends payable by City Stores Company \$506,520.30, and subsidiary \$25,099.88	531,620.18	
Federal and state taxes on income — estimated — Note F	\$ 4,415,304.12	
Less United States Treasury savings notes	168,150.27	4,247,153.85
TOTAL CURRENT LIABILITIES		\$21,917,470.28

LONG-TERM OBLIGATIONS — Note C

City Stores Company:		
Promissory notes (3%) to banks — Note C (2)	\$ 5,250,000.00	
Promissory demand note (4 $\frac{1}{2}$ %) to parent company (subordinated to promissory notes to banks)	1,404,392.00	
Subsidiary Companies:		
Promissory notes (2 $\frac{1}{4}$ %) to banks:		
Payable in varying annual installments for five years commencing August 31, 1950 — Note E (2)	\$ 2,500,000.00	
Less installments included in current liabilities	300,000.00	2,200,000.00
Mortgages payable — Note E (1)	\$ 7,983,299.38	
Less installments included in current liabilities	240,506.68	7,742,792.70
		16,597,184.70

RESERVES

For redemption of trading stamps (\$1,108,024.25), self insurance, etc.	\$ 1,349,513.27	
For inventory shrinkage and mark-downs	501,043.67	
For purchase discounts on merchandise in inventories — Note A	486,160.70	
For restoration of leased properties	441,899.00	
For income taxes on installment sales gross profit (deferred for tax purposes) — estimated	835,600.00	3,614,216.64

DEFERRED INCOME — Note D

Unrealized gross profit from installment sales and carrying charges on installment accounts receivable	1,288,647.63
--	--------------

MINORITY INTERESTS

Preferred stock of subsidiary companies — at par — Notes G and H	\$ 4,412,162.00	
Accrued undeclared dividends to January 31, 1950	10,542.81	
Common stock of subsidiary companies	1,340,293.00	
Surplus applicable thereto (including \$399,605.32 appropriated for contingencies)	6,788,320.19	12,551,318.00

CAPITAL STOCK AND SURPLUS

Capital Stock — par value \$5.00 per share:		
Class A Stock — 6% cumulative and participating:		
700,000 shares authorized	\$ 3,500,000.00	
300,000 shares unissued	1,500,000.00	
400,000 shares issued and outstanding	\$ 2,000,000.00	
Common Stock:		
1,900,000 shares authorized	\$ 9,500,000.00	
609,957 $\frac{8}{12}$ shares unissued	3,049,788.34	
1,290,042 $\frac{4}{12}$ shares issued	\$ 6,450,211.66	
1,641 $\frac{4}{12}$ shares in treasury	8,206.66	
1,288,401 shares outstanding	6,442,005.00	
		\$ 8,442,005.00
Surplus:		
Capital surplus	3,267,819.26	
Earned surplus:		
Unappropriated balance — Notes C (3), E (2), (3), and F	22,616,425.98	
Appropriated for contingencies	887,327.60	35,213,577.84
Long-term obligations, lease and other commitments — Notes C, I, J, and K		

\$91,182,415.09

STATEMENT OF CONSOLIDATED SURPLUS

YEAR ENDED JANUARY 31, 1950

EARNED SURPLUS

Unappropriated:

Balance at February 1, 1949		\$20,055,886.58
-----------------------------------	--	-----------------

Add:

Net profit for the year	\$ 4,581,293.69	
Deduct appropriation for contingencies less amount applicable to minority interest	68,607.00	4,512,686.69
Adjustment of excess cost of capital stocks of subsidiary companies, acquired in prior year, over equity in their tangible net assets at dates of acquisition		10,579.08
Reversal of portion of reserve for decline in market quotations of marketable securities, no longer required due to sale of securities — \$126,525.35, less amount applicable to minority interest		64,323.46
		<u>\$24,643,475.81</u>

Deduct:

Dividends paid:

On Class A Stock — \$1.20 per share	\$ 480,000.00	
On Common Stock — \$1.20 per share	1,545,457.20	\$ 2,025,457.20
Adjustment of minority interests in preferred stocks of subsidiary companies	1,592.63	2,027,049.83
Balance at January 31, 1950 — Notes C (3), E (2), (3), and F		<u>\$22,616,425.98</u>
Appropriated for contingencies:		
Balance at February 1, 1949	\$ 1,175,000.00	
Less amount applicable to minority interests	356,279.40	\$ 818,720.60
Add transfer from unappropriated surplus		\$ 68,607.00
Balance at January 31, 1950		<u>\$ 887,327.60</u>

CAPITAL SURPLUS

Balance at February 1, 1949	\$ 2,741,516.65
Add excess of equity in net tangible assets of subsidiary (acquired during year) at date of acquisition over cost of capital stock	526,302.61
Balance at January 31, 1950	<u>\$ 3,267,819.26</u>

Notes referred to above appear on pages 12 and 13.

COMPARATIVE STATEMENT OF CONSOLIDATED PROFIT AND LOSS***TWO YEARS ENDED JANUARY 31, 1950**

INCOME	<u>Year Ended January 31,</u>	
	<u>1950</u>	<u>1949</u>
Net sales — including leased departments	\$182,303,340	\$168,104,985
Other income:		
Carrying charges on customers' installment accounts	817,715	557,824
Profit on sale of real estate	559,553	—
From properties not used in department store operations (exclusive of depreciation)	423,519	516,058
Interest and dividends (\$179,110 — 1950 and \$140,257 — 1949) and other sundry income	585,130	545,858
TOTAL INCOME	\$184,689,257	\$169,724,725
DEDUCTIONS		
Cost of goods sold	121,254,990	110,996,818
Unrealized gross profit on installment sales	312,190	206,515
Occupancy, buying, publicity, selling, administrative, and general expenses (exclusive of depreciation and amortization)	50,786,110	45,087,365
Provision for depreciation and amortization	1,513,846	1,222,967
Provision for doubtful accounts and bad debts written off, less recoveries	633,716	510,977
Interest on City Stores Company's long-term obligations	194,880	146,319
Interest on mortgages, notes payable, etc.	385,990	241,118
Loss on sale of securities — net	123,250	(796)
Sundry charges	146,564	96,625
Federal and State taxes on income — estimated — Note F	3,629,243	4,558,116
TOTAL DEDUCTIONS	\$178,980,779	\$163,066,024
	\$ 5,708,478	\$ 6,658,701
Amount applicable to preferred and common stocks of subsidiary companies not owned by City Stores Company	1,127,185	1,260,294
NET PROFIT APPLICABLE TO CITY STORES COMPANY	\$ 4,581,293	\$ 5,398,407

* Includes operations of Wise, Smith & Company, Incorporated, from August 18, 1948; Swern & Company (subsidiary of Lit Brothers) from January 1, 1949; and of Franklin Simon & Co. Inc. from September 1, 1949.

Note referred to above appears on pages 12 and 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1950

NOTE A—Inventories of merchandise on hand and in transit were priced generally at cost on the last-in, first-out principle before allowances for discounts shown under Reserves, except as to seven subsidiary companies, the inventories of which (totalling \$9,019,429 after allowances for discounts \$441,571) were stated generally at the lower of cost or market as determined by the retail inventory method, or at invoice cost in respect of merchandise in transit. Inventories priced on the last-in, first-out principle were stated \$3,316,483 less than these would have been under the retail inventory method.

NOTE B—The amounts for land, buildings, equipment, and improvements are stated at cost as to subsidiary companies, paid for either in cash or capital stock issued therefor at time of organization, except as to:

- (1) Kaufman-Straus Co., Inc., at sound value at January 1936, determined by independent appraisers.
- (2) Kenville Realty Co. at written-down amount for land.
- (3) Oppenheim, Collins & Co., Inc., the furniture and fixtures and improvements at July 31, 1934, at nominal amount of \$1.00.

Subsequent additions to property at cost.

NOTE C—(1) Subsequent to January 31, 1950, Lit Brothers issued and sold to underwriters 4% Sinking Fund Debentures (Subordinated) in total principal amount of \$6,000,000, the net proceeds from which will be used to redeem at \$105 per share, plus accrued dividend from April 1, 1950, 59,874.62 shares of its entire outstanding 6% Cumulative Preferred Stock. On April 20, 1950, 38,789 shares of such stock held and owned by City Stores Company were redeemed by Lit Brothers.

(2) City Stores Company by oral agreement subsequent to January 31, 1950, with banks holding \$5,250,000 principal amount of its promissory notes, reduced the principal amount of said notes on April 20, 1950, by the payment of \$2,500,000 being portion of proceeds from redemption of Lit's preferred stock. The proposed new loan agreement relating to the promissory notes will provide for payments of the balance (\$2,750,000) of the loan as follows: \$250,000 on August 1, 1951, and \$500,000 each year thereafter beginning August 1, 1952.

(3) Under the provisions of the new loan agreement the Company will have the right to prepay the notes in their entirety or in part. The Company, among other things, will covenant:

1. To maintain (a) consolidated current assets of not less than two times consolidated current liabilities, and (b) consolidated net current assets of at least \$25,000,000.
2. To cause each department store subsidiary to maintain current assets of at least 1.6 times current liabilities, and
3. It will not declare or pay cash dividends on, or make any other distribution on any of its capital stock, which in the aggregate subsequent to February 2, 1949, exceeds the total of (a) 50% of the consolidated net profit (as defined) subsequent to January 31, 1949, and (b) the sum of \$2,000,000. At January 31, 1950, unappropriated consolidated earned surplus of approximately \$2,065,924 was not restricted by the provision of the proposed new loan agreement.

NOTE D—Deferred income comprises (1) unearned carrying charges at January 31, 1950, on customers' installment accounts as to five subsidiaries and (2) unearned carrying charges and unrealized gross profit from installment sales as to three other subsidiaries.

NOTE E—(1) Includes \$1,132,057.63 principal amount of mortgage, on office building, which is not a liability of the subsidiary company but a lien to which the property is subject (neither the subsidiary company nor the subsidiary from which it was acquired have assumed liability thereunder). The terms of such mortgage provide for fixed quarterly payments of \$24,500 each from May 1, 1950, to November 1, 1954, inclusive, such payments to be applied first to interest and the balance on account of principal. The remaining balance of principal is payable on February 1, 1955.

(2) Under the terms of a credit agreement between Franklin Simon & Co. Inc. and certain banks, under which there was \$2,500,000 of borrowings outstanding as at January 31, 1950, the company covenants that it will not pay or declare any dividend on any of its outstanding capital stock or purchase, acquire, redeem or retire any such stock except that the company may:

- (a) Pay current dividends on the preferred stock.
- (b) Purchase, redeem or otherwise acquire preferred stock in order to satisfy the existing sinking fund requirements applicable thereto.
- (c) Pay cash dividends on its common stock and/or purchase, redeem or otherwise acquire the preferred stock in any one year in an amount which, together with payments under (1) and (2) above, shall not exceed one-half of the net earnings of the company for the preceding fiscal year.

(3) Under the foregoing provisions, since dividend requirements on the preferred stock of Franklin Simon & Co. Inc., amount to approximately \$100,000 per annum, and sinking fund requirements for the retirement of the preferred stock during the year ending January 31, 1951, amount to approximately \$5,300, none of the company's resources are available as at January 31, 1950, to pay cash dividends on the company's common stock or to purchase, redeem or otherwise acquire preferred stock in excess of current sinking fund requirements.

Franklin Simon & Co. Inc. also covenants that it will maintain net current assets of not less than \$2,700,000 plus an amount equal to 40% of the principal amount of the notes then outstanding under said agreement.

The above provisions are included among the terms of the credit agreement, but do not constitute all of the provisions in said agreement.

NOTE F—Federal income taxes:

As to City Stores Company:

On the basis of a revenue agent's report dated March 21, 1950, the Bureau of Internal Revenue proposes to assess City Stores Company for the fiscal year ended January 31, 1945, additional income and excess profits taxes totalling approxi-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

JANUARY 31, 1950

mately \$433,783, exclusive of interest. Substantially the said amount represents the tax on alleged profit of \$550,223 resulting from operations by R. H. White Company prior to the date of acquisition of certain of its assets by R. H. White Corporation, a new company and a subsidiary of City Stores Company. Counsel for the Company is of the opinion that the contentions of the Bureau are without merit and therefore its findings will be contested by the Company.

As to subsidiaries:

During the fiscal year ended January 31, 1946, Lit Brothers (subsidiary) sold its main store property and concurrently with the sale leased the property from the buyer. In its tax returns for that year the Company claimed a deductible loss in respect of such sale and estimated an aggregate reduction of income and excess profits taxes resulting therefrom of approximately \$4,475,000, consisting in part of elimination of taxes which otherwise would have been payable for that year and in part of tentative refunds of taxes of prior years under the carry-back provisions of the Internal Revenue Code. The Company has received a ruling from the Bureau of Internal Revenue, supplemented by a closing agreement restricted to certain points in such ruling, stating in effect that any loss sustained on the sale of the property is deductible for tax purposes but not undertaking to establish the amount of loss.

City Stores Company and subsidiaries:

Pending final settlement in respect of the proposed assessment against City Stores Company and the amount of deductible loss on the sale of main store property by Lit Brothers, and examination of tax returns of the Company and/or its subsidiaries for years not as yet reviewed by the Bureau of Internal Revenue, the amounts for the liability for federal and state taxes on income reflected in the accompanying financial statements remain subject to final determination.

NOTE G—Preferred Stock of subsidiary companies held by the public comprises:

Lit Brothers:

21,085.62 shares of Preferred Stock 6% Cumulative, par value \$100 per share (see Note C)

Franklin Simon & Co. Inc.:

44,622 shares of 4½% Cumulative Preferred Stock, par value \$50 per share (see Note H)

Kaufman-Straus Company, Inc.:

725 shares of Preferred Stock, 5% Cumulative, par value \$100 per share.

NOTE H—The 4½% Cumulative Convertible Preferred Stock of Franklin Simon & Co. Inc. is redeemable at the option of the Board of Directors as set forth in an amendment to the Certificate of Incorporation filed under date of June 10, 1946. Upon any liquidation, dissolution or winding up of the company, the holders of the Convertible Preferred Stock shall be entitled, before any distribution is made or set apart for the Common Stock, to be paid the sum of \$50 for each share, plus accrued dividends, and, in addition thereto, if such liquidation, dissolution or winding up of the company be voluntary, the amount of the premium to which the holders would have been entitled had the stock been redeemed on the date of such payment. The Convertible Preferred Stock may be exchanged for Common Stock under certain conditions as set forth in an amendment to the Certificate of Incorporation, filed under date of June 10, 1946.

The Certificate of Incorporation, as amended, provides that on or before May 1, 1947, and annually thereafter, the company shall set aside an amount equal to 10% of its net earnings available for dividends for its immediately preceding fiscal year, as a Sinking Fund for the retirement of the Convertible Preferred Stock. The company purchased, up to January 31, 1950, 5,378 shares of its Convertible Preferred Stock at an aggregate cost of \$193,523.14. This amount was \$36,438.43 in excess of the amount required to be set aside or expended as at January 31, 1950, under the provisions of the Sinking Fund. This excess will be applied toward future sinking fund requirements.

In accordance with the provisions of the Certificate of Incorporation, as amended, 4,278 shares of 4½% Cumulative Convertible Preferred Stock have been surrendered to the Sinking Fund to May 1, 1949, and Certificates of Reduction of Capital, relative thereto, have been executed and filed.

No dividends other than dividends on the Convertible Preferred Stock may be paid, nor may Common Stock of the company be purchased or redeemed, unless the net current assets of the company of a date not more than 90 days preceding the date of the making of any such payment, will be at least \$2,000,000.00, and then only to the extent that profits earned subsequent to January 31, 1946, plus proceeds from sale of Common Stock since that date exceed dividends paid since that date on the Convertible Preferred Stock and all stock junior thereto since January 31, 1946. As at January 31, 1950, there was no restriction on surplus available for dividends by reason of the latter limitation on dividends.

The above provisions are included among the terms of the issue of the Convertible Preferred Stock, but do not constitute all of the provisions in connection with such issue.

NOTE I—Under the terms of an Executive Employees' Stock Option Plan of Franklin Simon & Co. Inc. certain key employees and executives of the company have been granted options to purchase, while remaining in the employ of the company, an aggregate of 18,000 shares of the Common Stock of the company at \$12 per share. The options expire on January 31, 1954, unless the employment of these employees and executives is terminated sooner. One key employee for whom 1,500 shares were reserved under this plan resigned on February 15, 1950, thus reducing the aggregate number of shares subject to options to 16,500 shares.

NOTE J—As at January 31, 1950, certain subsidiaries of the Company had 50 leases on real estate properties with terms expiring more than three years from that date. The aggregate minimum annual rental under such leases amounted to approximately \$2,117,603, plus, in certain instances, charges for taxes and insurance, and in the case of 17 leases additional rental based on a percentage of sales over a fixed amount.

NOTE K—Reference is made to the President's letter in the Annual Report to Stockholders of City Stores Company regarding expenditures during the next year for new store buildings, fixtures, and equipment.

ERNST & ERNST

19 RECTOR STREET

NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
WILMINGTON, DELAWARE.

We have examined the consolidated balance sheet of City Stores Company as of January 31, 1950, and the related statements of consolidated profit and loss and surplus for the fiscal year then ended. The consolidated financial statements include the assets and liabilities, and results of operations of Oppenheim, Collins & Co., Inc. and Franklin Simon & Co. Inc., as at, or for periods ended, January 31, 1950, as reported by other independent accountants. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records of the companies and such other auditing procedures as we considered necessary in the circumstances, except in respect of the two companies mentioned above.

In our opinion, based upon our examination and upon the reports of other independent accountants as to the financial statements of the two subsidiaries hereinbefore mentioned, the accompanying balance sheet and statements of profit and loss and surplus present fairly the consolidated financial position of City Stores Company and subsidiaries at January 31, 1950, and the consolidated results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

New York, N. Y.
April 25, 1950.

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